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C O N F I D E N T I A L SECTION 01 OF 05 TOKYO 002890

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STATE FOR EAP/J, EAP/EP, AND EEB
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TAGS: [ETRD](#) [EAGR](#) [EINV](#) [APEC](#) [PREL](#) [JA](#)
SUBJECT: AUSTR CUTLER RAISES BILATERAL TRADE IRRITANTS AND
COOPERATION WITH JAPANESE OFFICIALS

REF: A. TOKYO 2709
[1](#)B. TOKYO 2715
[1](#)C. TOKYO 2768

Classified By: Deputy Chief of Mission James P. Zumwalt;
Reasons 1.4 (b) and (d)

[1](#)1. (C) Summary: Government of Japan (GOJ) officials -- politicians and bureaucrats alike -- told AUSTR Wendy Cutler during her December 10 visit to Tokyo they are frustrated by the challenges with the new government's political transition, most notably inconsistencies in the decision making process. They spoke favorably of a senior level economic dialogue with the United States, but had different views on how it should be structured. Ministry of Foreign Affairs Director General Suzuki told AUSTR Cutler that his ministry has now received the political green light to move forward with updating the U.S.-Japan Regulatory Reform Initiative, and expressed an overall positive reaction to the U.S. proposal for this work. AUSTR Cutler also urged the GOJ to resolve several bilateral trade irritants, including those related to insurance, autos, and access for U.S. beef. On autos, Ministry of Economy, Trade and Industry Director General Okada noted Cutler's concern regarding the lack of Big 3 auto company participation in Japan's cash for clunkers program. He asserted that the program is not discriminatory since some European models already qualify, but left the door open on finding a solution to U.S. concerns. On insurance, Cabinet Office Senior Vice Minister Furukawa listened carefully to Cutler's suggestions that we use the window of opportunity presented by Japan's current review of Japan Post to quietly address level playing field concerns. He cautioned the U.S. to be careful, noting that too much attention by the USG could be exploited by politicians like Minister Kamei who are determined to reverse Japan Post's partial privatization. Director General Suzuki offered privately that in presenting U.S. views to politicians on the Japan Post issue, Cutler should also express concerns regarding Japan's adherence to its WTO obligations. On APEC, Director General Okada shared Cutler's concern that Japan may be setting an overly expansive APEC agenda to make meaningful progress during 2010 when it chairs the forum. AUSTR Cutler urged the GOJ to prioritize its agenda to focus a manageable

set of issues. End summary.

¶2. (SBU) Assistant U.S. Trade Representative for Japan, Korea, and APEC Affairs Wendy Cutler discussed a broad range of bilateral trade and regional cooperation issues, including APEC, autos, insurance, and beef during meetings December 10 with Senior Vice Minister and Director of the National Strategy Office Motohisa Furukawa, Parliamentary Vice Minister Shuji Kira, Deputy Foreign Minister Yoichi Otabe, Ministry of Economy, Trade and Industry (METI) Director General for Trade Policy Hideichi Okada, and Ministry of Foreign Affairs (MOFA) Director General for Economic Affairs Yoichi Suzuki.

Difficult Transition from Bureaucrats to Politicians

¶3. (C) Senior Vice Minister Furukawa appeared reluctant to suggest names of senior level officials with whom the USG could engage on economic and trade issues, offering instead that Japan is in the midst of a "once-in-a-hundred-years" political transition, a change he likened to the magnitude of the 2008 "Lehman Shock" on the global economy. The Democratic Party of Japan (DPJ), he said, is working to wrest decision making authority from the hands of the bureaucrats and put it in those of the politicians. Unfortunately, this transition is "not going so well", Furukawa conceded. He attributed this difficulty to several factors, in particular the GOJ's inability to remove "entrenched" senior civil servants (who are protected legally from being fired). In some cases, bureaucrats still lead the decision making

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process and the DPJ is struggling to establish the best mechanism by which information can move up from the bureaucrats to the politicians. Furukawa acknowledged that the (clumsy) way in which the DPJ handles decisions has sometimes created strains in the bilateral relationship, which can be exacerbated further by the limited foundation for frank discussions that exists between the USG and the new DPJ-led government. Whether the change is "good or bad" remains to be seen, but politicians must lead the government, he insisted. Director General Okada echoed similar frustrations with day-to-day operations.

Regulatory Reform Initiative

¶4. (SBU) Director General Suzuki said he now had just received approval from Foreign Minister Okada to consult with other parts of the GOJ on USTR's proposal for future Regulatory Reform Initiative talks. Suzuki said MOFA would recommend some changes, but by and large is receptive to the U.S. suggestions and hopes to provide a response shortly. He likes the idea of establishing a Food Safety Working Group, but expressed skepticism the Agriculture Ministry would be comfortable with including discussions on animal health. In terms of "building block" projects, Suzuki expressed interest in working together on third-country issues in such areas as standards.

Senior Level Economic Dialogue

¶5. (C) Echoing statements Deputy Prime Minister Naoto Kan and he made during their November 14 meeting with National Economic Council (NEC) Director Lawrence Summers (ref A), Senior Vice Minister Furukawa said he supports a senior level bilateral economic dialogue; he suggested to AUSTR Cutler that Deputy Prime Minister Naoto Kan could lead Japan's participation. AUSTR Cutler said the USG favors a dialogue that leads to tangible outcomes (APEC, development assistance, and cooperation on issues involving China came up in subsequent discussions as possible areas for senior level engagement). Furukawa asserted a senior level dialogue is necessary to ensure healthy bilateral economic ties. He

likened the U.S.-Japan relationship to that of an old married couple in which one half of the partnership may feel neglected or hold long standing grievances that, if left unaddressed, "can lead to divorce". It is important to consider the perspective of both sides, he said.

¶6. (C) Deputy Foreign Minister Otabe separately expressed surprise Furukawa would suggest that Deputy Prime Minister Kan lead a senior level dialogue. He doubted the efficacy of a ministerial level dialogue, an idea favored by certain GOJ officials as well as the American Chamber of Commerce Japan, noting this type of framework yielded limited results during the 1970s. Otabe asserted it makes more sense for METI Vice Minister Ishige and himself to chair a dialogue with USTR and State. His travel schedule for 2010 will take him to Canada about once a month for G8 meetings and he therefore could travel easily to Washington, as needed. Director General Suzuki conveyed similar doubts about Deputy Minister Kan leading a senior level dialogue, noting for example that Kan would have a difficult time engaging on bilateral issues such as beef. (Comment: With MOFA's career vice ministers having long been the main U.S. interlocutors in senior-level economic policy discussions, cautionary comments about allowing Japan's political leaders to step in as the main interlocutors with U.S. deputies are not surprising.)

Autos

¶7. (SBU) AUSTR Cutler outlined concern with Japan's vehicle purchase subsidy program -- in particular the extent to which

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Japanese autos benefited from the now discontinued U.S. equivalent "cash-for-clunkers" program -- and urged the GOJ to resolve this issue expeditiously. Noting that both the White House and Congress have also expressed concerns, she cited the lack of consideration for autos imported into Japan under the PHP (preferential handling procedure) program, which allows for streamlined importation of low-volume auto imports (2,000 or fewer per model) without the need for fuel efficiency tests (ref C).

¶8. (SBU) Director General Okada told AUSTR Cutler he had not yet seen the letter from Tokyo-based Big-3 auto representatives to METI sent December 7 concerning their recommendations about how to address the issue of limited coverage under Japan's automobile purchase incentive program for imports, but that he will give it careful consideration. Referring to the recent Cabinet decision to continue the program until September 30, 2010, Okada said he was unclear whether the extension entails any modifications to the existing requirements. (NOTE: The GOJ's December 8 economic policy package, entitled "Emergency Economic Measures for Reassurance and Economic Growth Tomorrow," included a six month extension of the current eco-car subsidy program through the end of September 2010. On December 15, the Cabinet approved a second supplemental budget to finance mainly the policy package, including JPY 260.9 billion (USD 2.9 billion) for the eco-car subsidy program. Post expects the Diet to approve the budget in February 2010. END NOTE.) Okada noted that while seven out of the 10 top selling models under the U.S. cash-for-clunkers program were Japanese, 81 percent of these vehicles were manufactured in North America, according to data compiled by Ward's Automotive Reports. He said METI is working to compile U.S.-specific data.

¶9. (SBU) Okada claimed the "cash for clunkers" moniker sometimes applied to Japan's incentive program creates misperceptions about its primary purpose, which he said is to promote sales of enviro-friendly vehicles with improved fuel efficiency. He claimed Japan's program is non-discriminatory, noting that although no U.S. imports currently qualify under Japan's program, 30-40 percent of European models do. Director General Suzuki suggested the best solution would be for U.S. manufacturers to propose a

enviro-friendly vehicle to be imported into Japan (e.g., the Ford Explorer II). AUSTR Cutler replied that the lead times and costs associated with introducing a new model into the niche Japan market made this proposal infeasible, and instead urged that the GOJ seek ways to include U.S. models. With a clear indication given by her counterparts of Japan's preparedness to leave the door open to work with the U.S. to find a solution, AUSTR Cutler agreed on the need to stay in close touch to resolve this issue.

Japan Post Insurance and Level Playing Field Concerns

¶10. (SBU) AUSTR Cutler told Director General Suzuki that the USG continues to remain neutral about whether Japan Post should be privatized and believes that is a decision for Japan to make. She noted the U.S. and Japan have an important opportunity to work together to resolve these concerns, particularly before Japan completes its review of postal reforms and introduces new legislation governing Japan Post Insurance, which is expected to be passed before next July's election. She urged the GOJ to give equal opportunities for foreign stakeholders to provide input during its review of postal reform policies, noting the recent decision to not invite foreign business associations to a hearing held December 11 on the future of the postal services is unhelpful.

¶11. (C) Concerning the GOJ's reversal of efforts to promote a level playing field for U.S. insurance companies, AUSTR Cutler told Director General Suzuki that U.S. industry has

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approached the USG with concerns about their ability to compete. She said that the USG has been reviewing Japan's WTO commitments and has some serious concerns. She explained USG attorneys have so far identified three areas where they believe a strong case can be made to show Japan is in violation of its "national treatment" commitments under the WTO:

- 1) access to the postal network (foreign insurance companies are permitted to sell limited products at roughly 1,000 post offices; Japan Post Insurance is able to offer its full product range at more than 20,000 post offices);
- 2) cooperation with other Japan Post group companies on strategic business objectives (unlike Japan Post group entities, private companies are prohibited from joint ownership of insurance, banking, and non-financial operations of foreign companies; and
- 3) differential enforcement of insurance laws (the Financial Services Agency, or FSA, appears to give more favorable treatment to Japan Post Insurance in enforcement matters).

¶12. (C) Suzuki said he would follow up on AUSTR Cutler's suggestion that Japanese embassy officials discuss these possible violations with USG attorneys. (NOTE: Japanese Embassy officials from MOFA and Ministry of Internal Affairs and Communications (MIC) visited USTR on December 14 to ask for more details on the three areas AUSTR Cutler identified. END NOTE.) In a subsequent discussion, Suzuki suggested to AUSTR Cutler privately that, when raising our level playing field concerns with officials at the political level, the USG should also raise our concerns about Japan's compliance with its WTO commitments on trade issues. He said METI Minister Naoshima is sensitive to possible violations of Japan's multilateral trade commitments and that even Minister Kamei understands the importance of abiding by international rules -- even if he also plays by his own political rules. Suzuki said timing is critical since Minister Kamei will most likely push ahead with drafting new legislation as soon as the Diet convenes in mid January. He said he will talk to key officials who work with Senior Vice Minister for the Financial Services Agency and Postal Reform Kouhei Ohtsuka

and asked that either the DCM or EMIN meet with Ohtsuka directly as well. He suggested the embassy also engage MIC Parliamentary Secretary Kensei Hasegawa on this issue.

¶13. (C) Senior Vice Minister Furukawa acknowledged U.S. concerns about the lack of a level playing field between Japan Post Insurance and foreign companies, but asked for understanding as the GOJ continues to consider next steps related to Japan Post's recently frozen privatization process. He cautioned that too much attention by the U.S. could be exploited by certain politicians (a reference to Minister Kamei). Vice Minister Kira separately noted that many DPJ parliamentarians did not support the bill to stop the sale of Japan Post shares, but that other factors were also at play such as the DPJ's need to maintain its ruling coalition (that includes Kamei's People's New Party), at least until the July 2010 Upper House election. Director General Suzuki noted domestic insurance providers are similarly concerned about Japan Post Insurance's market power. The challenge is for the bureaucracy to keep up with developments in the political process; everything in the GOJ is on "short notice" these days, he said.

APEC and Regional Architecture

¶14. (SBU) Senior Vice Minister Furukawa agreed Japan and the U.S. have a real opportunity for cooperation in the Asia-Pacific Economic Cooperation (APEC) forum and for strengthening the organization as back-to-back chairs in 2010 and 2011. AUSTR Cutler identified promotion of "green

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growth", energy efficiency, and intellectual property rights protection as areas where the U.S. and Japan also share common objectives and concerns, and that bilateral efforts on these issues could serve as models for the region. Director General Okada applauded the close cooperation on APEC issues, but also expressed concern that Japan had set so ambitious an agenda that it may not be able to make all of its targets in ¶2010. AUSTR Cutler concurred, noting that Japan's agenda has become increasingly broad and potentially unmanageable. She urged the GOJ to prioritize its work to focus on a set of relevant and meaningful issues. Okada said Japan is undertaking a similar prioritization process vis-a-vis its Japan-China-South Korea, ASEAN 3, and ASEAN 6 trade liberalization discussions. AUSTR Cutler cautioned that Japan needs to be careful not to inadvertently create lower standard agreements that in turn become models within APEC for a Free Trade Area of the Asia Pacific (FTAAP). Asked about Prime Minister's intentions concerning the East Asian Community (EAC) concept, Vice Minister Kira said the Hatoyama administration considers its relationship with the United States to be the most important bilaterally and sees APEC as an key framework for U.S.-Japan cooperation.

Doha Development Agenda

¶15. (C) Deputy Foreign Minister Otabe expressed his hope the Doha Development Agenda negotiations can be accelerated towards a successful conclusion. He said his State Minister had pressed his Chinese counterpart in Geneva to show more flexibility in negotiations with the U.S. Both China and India need to take into account political considerations in the U.S. to facilitate a deal, Otabe said. Japan wants to work with the U.S., but it would help if the USG also made more concrete proposals that reflect its "real position." Director General Suzuki said he was relieved METI Minister Naoshima was able to join Agriculture Minister Akamatsu in Geneva last week for the WTO meetings, noting there had been worries that Japan would send the wrong message if only Minister Akamatsu had represented Japan.

¶16. (U) AUSTR Cutler cleared this message after her departure from post.

